

CHARACTER MERCHANDISING

The area of character merchandising is one in which the law does not yet seem to have caught up with commercial practice. Enormous sums of money are expended in gaining licences to manufacture and sell reproductions of particular characters and to use names, and enormous royalties paid.

Yet, in many cases the only protection is an action of passing-off or under Section 52 of the Trade Practices Act, which is expensive and in which there is no guarantee of success as reputation or deceptive conduct is something which is subjective and, of its nature, hard to prove.

The enormous costs of such litigation discourage many.

1. COPYRIGHT

(a) Subsistence of Copyright

Copyright protection is given in Australia to various works or other subject matter by virtue of the Copyright Act 1968 ("the Act"). Copyright subsists in original works of which the author was a qualified person or which were first published in Australia. The two most relevant forms of works for merchandising rights are artistic and literary works.

Regulation 4 of the Copyright (International Protection) Regulations (SR 1969, No. 6) extends copyright protection to, inter alia, literary and artistic works made by citizens or residents of countries which are members of the Berne or Universal Copyright Conventions and to works first published in those countries.

Section 31 of the Act gives to the owner of the copyright in an artistic and a literary work a number of exclusive rights, which include, for the purposes of merchandising rights, the right to reproduce the work. (Section 31(1)(a)(i) in the case of literary works and Section 31(1)(b)(i) in the case of artistic works).

(b) Dual Protection

There is no "dual protection" for artistic works under the Copyright Act and the Designs Act 1906 in Australia. Section 77 of the Copyright Act provides that:

- (i) if copyright subsists in an artistic work; and
- (ii) a corresponding design is applied industrially by or

with the licence of the owner of the copyright in the work; and

- (iii) the corresponding design has not been registered under the Designs Act; then
- (iv) for a period of fifteen years commencing on the date on which the articles made to the corresponding design were first sold, no copyright protection subsists.

On the expiration of the fifteen-year period it is not an infringement of the copyright in an artistic work to apply the corresponding design of that artistic work to the article which has been industrialised (Section 77(3)). A "corresponding design" is defined to mean a design which when applied to an article reproduces an artistic work (Section 74(1)).

A design is deemed to be applied industrially if it is applied to more than fifty articles (Regulation 17(1) Copyright Regulations (SR 1969 No. 58)).

The apparently harsh result of Section 77 is lessened in two respects. The only artistic works in which copyright is lost through industrialisation are those which are registerable as designs. Regulation 20A of the Designs Regulations (SR 1907 No. 51, as amended by SR 1969 64) makes it clear that works which are primarily literary or artistic in character are not registerable as designs. In addition, copyright protection is only lost in relation to the article

By ROBYN DURIE

to which the corresponding design is applied industrially. Copyright protection still exists in other articles to which a corresponding design of an artistic work has been applied, which have not been reproduced on a mass scale.

Section 17 of the Designs Act 1906 requires that designs for which registration is sought must be new or original and not published in Australia at the date of application for registration.

Section 17A of the Designs Act 1906 to some extent assists applicants who are not familiar with Section 77 of the Copyright Act. That Section provides that:

- (a) where copyright subsists under the Copyright Act in an artistic work, and an application is made for registration of a corresponding design; then
- (b) the design shall not be treated as being other than new or original, or as having been published, by reason only of any use previously made; unless
- (c) that use consisted of the sale or hire of articles to which the design had been applied industrially with the consent of the copyright owner.

Accordingly, a design is not deemed to be published and disqualified from registration merely because, for example, a television show featuring a character reproduced in a design is shown.

(c) Pre-1969 Copyright

Section 77 applies only to works made after May, 1969 when the present Copyright Act came into force.

Section 22 of the previous

Continued Page 29

Character Merchandising — Legal Forms of Protection

From Page 28

Act (Copyright Act 1912) provided that that Act did not apply to designs capable of being registered under the Designs Act, except designs which, although capable of being registered, were not used or intended to be used as models or patterns to be multiplied by any industrial process.

That section was dealt with by the House of Lords in **King Features Syndicate Inc v Kleeman (O & M) Limited** (1941) AC 417. In that case the author of Popeye the Sailor, who had originally been created as a cartoon character published in comic strips, did not have any intention at the time he first drew the character of industrializing the drawings. Subsequently, Popeye dolls, toys, brooches and other articles were made under licence. An action for infringement of copyright was taken against the manufacturer of unlicensed dolls, and the defendant relied on Section 22. It was held that the artistic copyright in the Popeye cartoons had been infringed, and the date on which intention was to be determined was the date of creation of the artistic work. Section 208 of the present Copyright Act gives statutory recognition to the decision in the **King Features** case.

(d) Protection of Merchandising Rights by Copyright Law

Copyright protection is the most simple and efficient means of protection of merchandising rights. There is no necessity for registration and the remedies under the Act are certain. Under Section 116 of the Act the copyright owner is entitled to delivery up of all infringing copies. This prevents the continued sale of such articles and the problem of tracing infringing articles. However, copyright

protection is only relevant in a number of limited cases. These include:—

- (i) pre-1969 works, where there was no intention to industrialize such artistic works at the date of their creation;
- (ii) literary works; and
- (iii) artistic works which are primarily artistic in character.

A recent case has shown the difficulties of protection of names under the copyright law. For a name to be protected by itself, it needs either to be registered as a trade mark, to be a literary work under the Act or to be associated in the minds of the public with a particular person. In **Exxon Corporation & Ors v Exxon Insurance consultants International Limited** (1981) 2 All ER 495, Graham J. held that the word "Exxon" was not the subject matter of copyright. His decision was upheld by the Court of Appeal.

The plaintiffs had argued that as considerable time and labour was expended in arriving at the name "Exxon" it qualified as an original literary work within the U.K. Copyright Act. The Judge found because the word was invented it must, for practical purposes, be considered as original. However, it was not literary.

In the Court of Appeal, Lord Justice Stephenson referred to the judgment of Lord Justice Davey in **Hollinrake v Truswell** (1894) 3 Ch 420, in which he said that:—
"a literary work is intended to afford either information and instruction or pleasure, in the form of literary enjoyment".

The word "Exxon" did not do this. The plaintiffs in the **Exxon** proceedings did succeed on the basis of passing-off. On the basis of the **Exxon** decision, it would seem unwise to rely on copyright as protecting a name for merchandising purposes.

2. DESIGNS

The next area of protection which is dealt with, the Designs Act 1906, is again confined to situations where actual copying takes place. Other remedies such as the tort of passing-off or an action under sections in Part V of the Trade Practices Act are wider in that if it can be established that someone is engaged in the business of licensing, even though they may not have made particular goods, or in fact, have licensed someone else to make those goods, consumers may still be misled and the article may be held out as being made under licence from that person.

A design is registerable under the Designs Act 1906 if it consists of a new or original design which has not been published in Australia (Section 17(1)).

The term of design registration at present is fifteen years, although recent amendments provide for a sixteen year term.

Designs are registered in various classes which are set out in the Schedule to the Designs Regulations (SR 1097 No. 51). When the amendments come into force, it will not be necessary to obtain registrations in each class.

The owner of a registered design must use it in the manufacture of goods in Australia, or else a compulsory licence for its manufacture may be granted (Section 28). A person who applies a design or fraudulent or obvious imitation of it, to an article, or who imports or sells an infringing article, infringes the copyright in a design. One advantage of design registration is that registered designs are kept on a public register (at the Patents, Trade Marks & Designs Office) and so a person may have some certainty as to whether by using a design, he is infringing the rights of another person. One practical problem is, however, that design registrations take approximately two years to be granted and it is not possible to search applications for registered designs, thus losing considerable certainty in a world where fashions in the field of merchandising change rapidly.

Continued Page 30

Character Merchandising — Legal Forms of Protection

From Page 29

3. PASSING-OFF

Most cases concerned with merchandising rights have arisen under the tort of passing-off. The most recent Australian case on character merchandising is the decision of His Honour Mr Justice Helsham in **Children's Television Workshop Inc & Ors v Woolworths Limited & Anor** (1981) 1 NSWLR 273. Unfortunately, in his judgment in that case Helsham CJ. in Equity refers only to one other merchandising case, the previous Australian case of **Henderson v Radio Corporation** (1969) RPC 218.

The classic definition of "passing-off" is set out in *Kerley's Law of Trade Marks*. Paraphrased, the definition is as follows. It is an actionable wrong for person 2 to represent, in the course of business, that his goods or his business are those of person 1. It makes no difference whether the representation is by means of a direct statement or by using the same kind. Representations must be in such a manner as is calculated to cause goods to be taken by ordinary purchasers as the goods of person 1. Generally speaking, a false representation which is calculated to injure another in his trade or business is regarded as passing-off.

In the field of merchandising this definition of passing-off needs to be taken one step further. In many instances defendant is not someone who actually makes goods, but instead is someone who licenses others to make them. Generally, that person is the owner of the reputation in a character, the person with whom the character is associated. For example in the **Woolworths** case, the first two plaintiffs were, respectively, the maker of the programme "SESAME STREET" and the U.S. owner of copyright in the "MUPPET" characters featured in that show. Neither actually made any goods. For this reason it was necessary to show that their business was that of licensing.

Passing-off is a tort. Proceedings to restrain people from committing the tort or for damages must

be brought in state Supreme Courts. The other legal remedies dealt with in this paper are given by Commonwealth statutes. Whilst state Supreme Courts have jurisdiction at first instance in copyright, design and trade mark actions, an appeal lies to the Federal Court. The Federal Court has first instance jurisdiction in trade practices cases.

Before turning to the decision is the **Children's Television Workshop** case, I propose to go through the previous authorities.

(a) Australian Decisions

There are two relevant Australian decisions prior to the **Children's Television Workshop** case; the first is the judgment of the High Court in **Radio Corporation Pty Limited v Disney** 57 CLR 448. That case was the first Australian recognition of merchandising rights.

The other more relevant authority is that of **Henderson v Radio Corporation Pty Limited** (1969) RPC 218. **Henderson's** case was concerned with two well known professional ballroom dancers, whose photographs were reproduced on an album cover of dance music without their consent. The New South Wales Full Court restrained the distribution of this record. They did not think it relevant that the plaintiffs were in a different field of activity from the defendant, a record producer. The Court found that the Hendersons were amongst the best known dancers of their type and that the use of the photographs implied that they had approved and recommended the record.

Chief Justice Evatt and Mr Justice Myers in their joint judgment said:—

"The remedy in passing-off is necessarily only available where parties are engaged in business, using that expression in its widest sense to include professions and call-

ings. If they are, there does not seem to be any reason why it should also be necessary that there be an area, actual or potential, where two activities conflict."

(b) U.K. Decisions

In **Henderson's** case the Full Court had before it the decision of Wynn-Parry J. found that the plaintiff, a broadcaster, was not engaged in the business of producing puffed wheat, and had no field of activity in common with the defendants who did market puffed wheat. Accordingly, the defendants by using the broadcaster's name "Uncle Mac" had not invaded any proprietary right of the plaintiff.

Three more recent English decisions have considered character merchandising. Those decisions are **Lyngstad v Anabas Products** (1977) FSR 62, **Wombles Limited v Wombles Skips Limited** (1957) FSR 485, and **Travener Rutledge Limited v Trexapalm Limited** (1975) FSR 479. Merchandising rights were not protected in those cases as the parties were not in the same field of activity as the defendant. The Court of Appeal in **Annabel's (Berkley Square) Limited v G. Schock** (1972) RPC 38 also considered the relevance of common fields of activity. **Annabel's** case was concerned with whether the plaintiff, the operator of the well known London nightclub, was entitled to prevent an escort agency operating as "Annabel's Escort Agency". The Court of Appeal upheld the grant of an interlocutory injunction. Lord Justice Russell said:

"In this question of confusion of course, as a matter of common sense, one of the most important considerations is whether there is any kind of association, or could be in the minds of the public any kind of association, between the fields of activities of the plaintiff and the fields of activities of the defendant

Continued Page 31

Character Merchandising — Legal Forms of Protection

From Page 30

— as it is sometimes put: is there an overlap in the fields of activity? But of course, when one gets down to brass tacks, this is simply a question which is involved in the ultimate decision whether there is likely to be confusion”.

This decision is consistent with that of the New South Wales Full Court in **Henderson** and is probably the law in New South Wales at the present time.

The **Wombles**' decision was concerned with the mythical WOMBLES characters who picked up garbage on Wimbledon Green. The plaintiff was the owner of the copyright in drawings of these characters and had licensed them to various companies. The defendant was using the name "Wombles" on its rubbish skips. Walton J. found that there was no common field of activity and, accordingly, refused an injunction.

In **Lyngstad v Anabas Products Pty Limited**, the pop group "ABBA" failed to restrain the sale of products bearing the name "ABBA". Oliver J. in his decision specifically found that there was no proof that the plaintiffs were in the business of the licensing of their name or image or of marketing articles using them and that that finding was fatal to any claim. The **Henderson** case did not go this far. It merely showed that the plaintiffs could follow other well known identities and license their likeness. In **Travener Rutledge**, the plaintiff and defendant both sold confectionery under the name "KOJAK". The defendant was licensed by the producers of the television show. Walton J. again found that there was no common field of activity and that it was not sufficient to show that the public would think that the plaintiffs were licensed by the

owners of the television series. He said —

"It appears to me that, therefore, one would have to have three things proved, first, that a reference to 'Kojakpops' inevitably carried the man in the street back to the person, whoever he was and of course he might not know his identity, who was the owner of the television series; secondly, that the owners of all licensing rights automatically included provision for quality control in their agreement and, thirdly, that they all automatically saw that those were carried out. It seems to me, in my judgment, that unless and until those matters are all satisfied it cannot be said that there is any relevant overlap in any of the activities of the plaintiff and Universal City Studios" (at page 486

(c) **The Woolworths Case**

In the **Woolworths** case, the criteria set out in **Travener Rutledge** were met. The judge found that the first and second plaintiffs exercised scrupulous care over the production of "SESAME STREET" characters for sale and there was strict quality control over all goods licensed. The reputation which Helsham CJ. found in that case was threefold:—

- (i) the three characters which had been reproduced had acquired a reputation;
- (ii) the first respondent was associated in the minds of the public with the television programme; and
- (iii) the public associated the producer of the television programme with the merchandising of toys which were intended to be representations of the characters in the programme.

Helsham J's final relevant finding was that members of the

Australian public associated the business of commercial exploitation by merchandising with whoever had the right to permit it by licensing or by arranging for the manufacture of toys or other products representing the fictional characters. He found that there was confusion, because the defendant's toys picked up the essential characteristics of the plaintiffs' characters.

On the question of common field of activity, the Judge did not say whether that point was relevant, (which in the light of his reliance on **Henderson's** case it was not) but in any event found that there was a common field of activity. The defendants imported and sold toys and the plaintiff arranged for the manufacture and sale of toys in the market place.

The defendants lodged an appeal from the decision, but later withdrew that appeal. They raised two arguments in the appeal which are important. The first was that there was no evidence that the public were aware of any quality control by the first plaintiff; the second was that the false representation that the goods were licensed by the plaintiffs was irrelevant to the purchase by the public. These two arguments are ones which will have to be considered in future cases.

4. TRADE PRACTICES ACT

Section 52 of the Trade Practices Act provides that a corporation shall not engage in conduct that is misleading or deceptive or is likely to mislead or deceive.

Section 53 prohibits various false representations including representations that goods or services are of a particular standard or quality, or that they have a particular history (s53(1) (a) and (aa); that goods or services have sponsorship or approval they do not have (s53(1) (c); and that corporations have a sponsorship, approval or affiliation they do not have (s53(1) (d).

Sections 55 and 55A are also relevant as prohibiting misleading conduct in relation to goods or services.

Continued Page 32

(1981) 1 CLB — 31

Character Merchandising — Legal Forms of Protection

From Page 31

Following the decision of the High Court in **Phillip Morris Inc v Adam P. Brown Male Fashions Pty Limited** and **U.S. Surgical Corp. v Hospital Products International Pty Limited** 33 ALR 465, provided a passing-off action arises on the same sub-stratum of facts as an action under any of Sections 52, 53, 55 or 55A, proceedings may be brought in the Federal Court joining both actions under the Trade Practices Act and passing-off actions.

The selling of reproductions of well known characters, or goods using the names of such characters, without the licence of the person entitled to grant that licence, is misleading or deceptive conduct as it may lead people to a mistaken belief that the seller has the authorisation of the owner of the right to sell those goods. It could also constitute false representations —

- (a) that the goods were of a particular standard or quality or they had a particular history; or
- (b) that goods or services had a sponsorship which they did not have.

Within Sections 55 and 55A, such conduct may mislead the public as to the nature of goods or services.

The first merchandising case which has arisen in the Federal Court is that of **Nostac Enterprises v New Concept Imports Services Pty Limited & Ors** (1981) ATPR 43-135. It was concerned with two companies who had been granted licences for different "Mr Men" products. Ellicot J. found:

"... the use of the 'Mr Men' words and characters represent to the public including parents and children that there is some likely association between the product and those responsible for the 'Mr Men' books and T.V. series. It is unnecessary, of course, to show that the public actually know who in fact are responsible" (at 43, 137-43, 139).

One problem with trade mark registration in the context of mer-

chandising is that they are expensive. Applications have to be lodged in all classes for which goods or services are licensed or intended to be. Character merchandising is a very fashion oriented business and trade mark registrations take at least two years from the date of application.

5. TRADE MARKS

The Trade Marks Act 1955 provides that a person who claims to be the proprietor of a trade mark may make application for the registration of that mark in respect of goods or services provided the mark meets certain specifications (Section 40). A trade mark must be:

- (a) the name of a person represented in a special or particular manner;
- (b) signature of the applicant;
- (c) an invented word;
- (d) a word not having direct reference to the character or quality of the goods or services and not being a geographical name or surname; or
- (e) any other distinctive mark (Section 24).

A "trade mark" is defined as "a mark used or proposed to be used in relation to goods or services for the purpose of indicating . . . a connection in the course of trade between the goods or services and a person who has the right, either as proprietor or registered user, to use the mark . . ." (Section 6(1)).

The overriding test for trade mark applications is that the mark must be distinctive of the goods or services of the proprietor. The Trade Marks Register consists of some 42 classes for goods and services. The Register is divided into four parts:

- Part A is for distinctive marks, e.g. "ESSO";
- Part B is for marks which are capable of

becoming distinctive although they are not at the time of application, e.g. SOFLENS;

- Part C is for certification marks, which indicate origin and certify that goods or services have reached a particular standard, e.g. the Wool Mark; and
- Part D is for defensive marks.

Those who wish to grant merchandising licences require for adequate protection a registration in each class in which they intend to grant licences. Licensees should also be registered users of the trade marks. There are extreme examples of companies who register in every class. However, this is rarely possible. Before he registers a trade mark the Registrar of Trade Marks must be satisfied that the applicant intends to use the mark (Section 44(1) and Section 23(1)) or to licence other to use it (Section 45(1)(b)). If this intention does not exist at the time of registration then the mark can be expunged (Sections 22 and 23). Accordingly, entrepreneurs cannot register marks they might want to use at some time in the future, depending on the success of a television programme — Rawhide TM (1962) RPC 131 and Pussy Galore TM (1967) RPC 265.

A trade mark is something used to indicate a connection in the course of trade between the proprietor of the mark and his goods or services. Copying an article is not necessarily indicating such a connection. Section 62 of the Trade Marks Act makes it clear that a registered trade mark is only infringed by a person who uses a mark which is substantially identical with or deceptively similar to the trade mark in the course of trade in relation to goods or services in respect of which the trade mark is registered. Obviously, a person who makes infringing "R2D2" dolls is not using that mark in relation to goods. He is merely using a representation. If copyright or design protection is available they would provide the appropriate legal remedies, failing that, passing-off.